

INTERNATIONAL COOPERATION ADMINISTRATION
Washington 25, D. C.

STATEMENT PREPARED FOR DELIVERY BY

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DEPUTY DIRECTOR FOR MUTUAL DEFENSE ASSISTANCE CONTROL
BEFORE THE SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT
AT 2 P.M. E.S.T. November 16, 1955

on

EAST-WEST TRADE CONTROLS

State Dept. declassification & release instructions on file

Mr. Chairman, Members of the Committee:

It seems especially timely to discuss the development of international rules governing the shipment of strategic materials in East-West trade because of recent efforts to equate security controls with the low level of East-West trade. In actual fact the items controlled are very few indeed in comparison with the wide range of commodities the Soviet Union and her European satellites could buy from the free world if they had the desire and the means of payment.

In any discussion of strategic trade controls it is well to remember that they came into being by an act of Congress as a result of the threatening gestures and tensions created by the U. S. S. R. Trade controls were imposed as a defense measure against those threats, as an economic defense which the free world built side by side with its military defense. The controls on trade in strategic material is intended to deny or limit shipments of goods which will significantly contribute to the bloc's war potential. They do not apply to trade in peaceful goods.

In the face of those threats, the policy on East-West trade has been based on these principles:

1. The free nations should not furnish a potential aggressor with goods which directly and materially aid its war industry and military buildup.

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2. Security export controls should be applied on a selective basis, except in the case of military aggression when a policy of complete embargo would be in order.

3. Mutual security can best be advanced by the continued increase in the political, economic and military strength and cohesion of the free nations.

While controls are limited, selective and flexible against the European Soviet bloc, they are far more comprehensive against Communist China and North Korea who have been declared aggressors by the United Nations. Against these regimes the United States embargoes all exports, prohibits all imports, and prohibits our ships or aircraft from calling at their ports or carrying commodities destined to them. We block all of their assets within our jurisdiction and exercise financial controls aimed at depriving them of dollar exchange.

The controls of the other free world nations are also more inclusive against Mainland China and North Korea, although they do not generally match the total embargo imposed by the United States. About 45 countries support the selective embargo resolution adopted by the United Nations in 1951 which applies specifically to arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items useful in the production of arms, ammunition, and implements of war. Half of these 45 countries apply an embargo on other strategic goods as well, and practically all the leading maritime nations have adopted controls on shipping of varying degrees but of less severity than United States controls on shipping.

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As you can see, the very essence and heart of these controls is their dependence upon the cooperation of our principal allies. Relatively few items can be controlled by one country. Trade controls pose important economic, financial, and political problems in the countries cooperating with us. Foreign trade is a far greater factor to the economic well-being of those other countries than to the United States. It is well to remember that when we discuss trade controls with the participating countries we are talking about their trade. We must always respect their sovereign rights to deal with their own problems as they see them within their own national interests and the security of the free world.

Trade is not a "gift" to either party. Shipments to the bloc must be paid for in Soviet goods or gold which the free world nations can use in their own economies. The Soviet Union has, in fact, recently begun to sell gold again and appears to be trying to utilize credit arrangements more widely.

Now I would like to discuss the administration of these complex controls in the United States and internationally.

(Chart 1 - EDAC Structure)

As you know, one of the principal parts of our legislative framework for the control of trade is the Mutual Defense Assistance Control Act of 1951, usually known as the Battle Act. It is administered by the Director of the International Cooperation Administration.

EDAC STRUCTURE

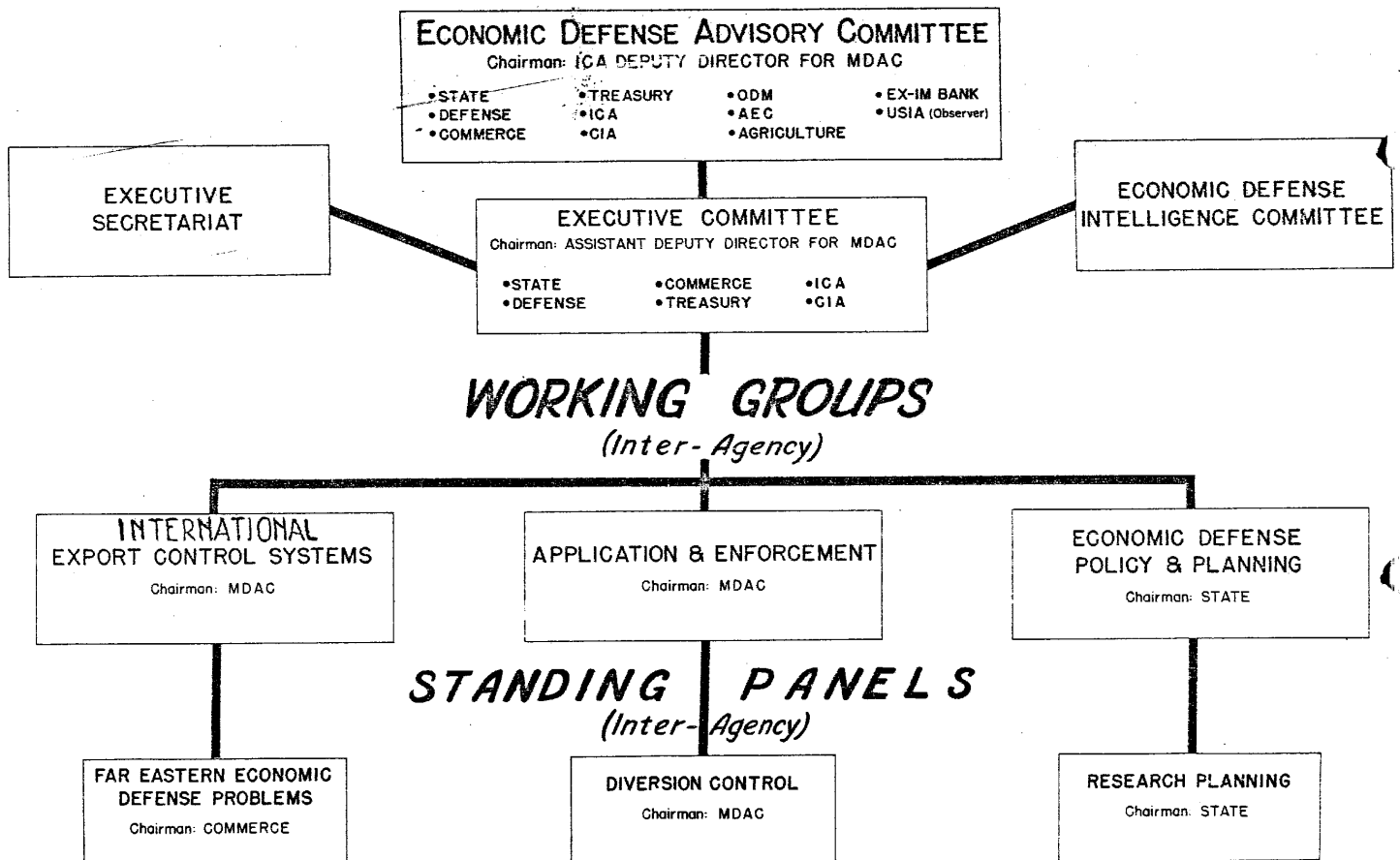


CHART 1

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In addition, there is the Export Control Act, which is administered by the Department of Commerce; the Trading with the Enemy Act; administered by the Treasury Department; the Atomic Energy Act, administered by the Atomic Energy Commission; and the Munitions Control Act, which is administered by the Department of State. All activities under these legislative mandates are coordinated by the Secretary of State insofar as they affect foreign policy.

The Mutual Defense Assistance Control Act, which has no termination date, reinforces the international system of voluntary trade controls which were already in existence before the act became fully operative in January 1952. Among other things, the statute provides that United States aid should go only to countries that cooperate in the control of strategic goods. It has been administered as intended by Congress, with awareness of other countries' problems, the need for building up free world strength and unity, as well as to impede the military buildup of the Sino-Soviet bloc.

The problems innate in security controls cut across so many responsibilities here in Washington that, of necessity, the Mutual Defense Assistance Control Act is administered with the advice of an Economic Defense Advisory Committee which has ten government agencies represented. Each brings the particular point of view of his agency to bear on the complexities of these controls.

INTERNATIONAL ORGANIZATION *for* STRATEGIC TRADE CONTROLS

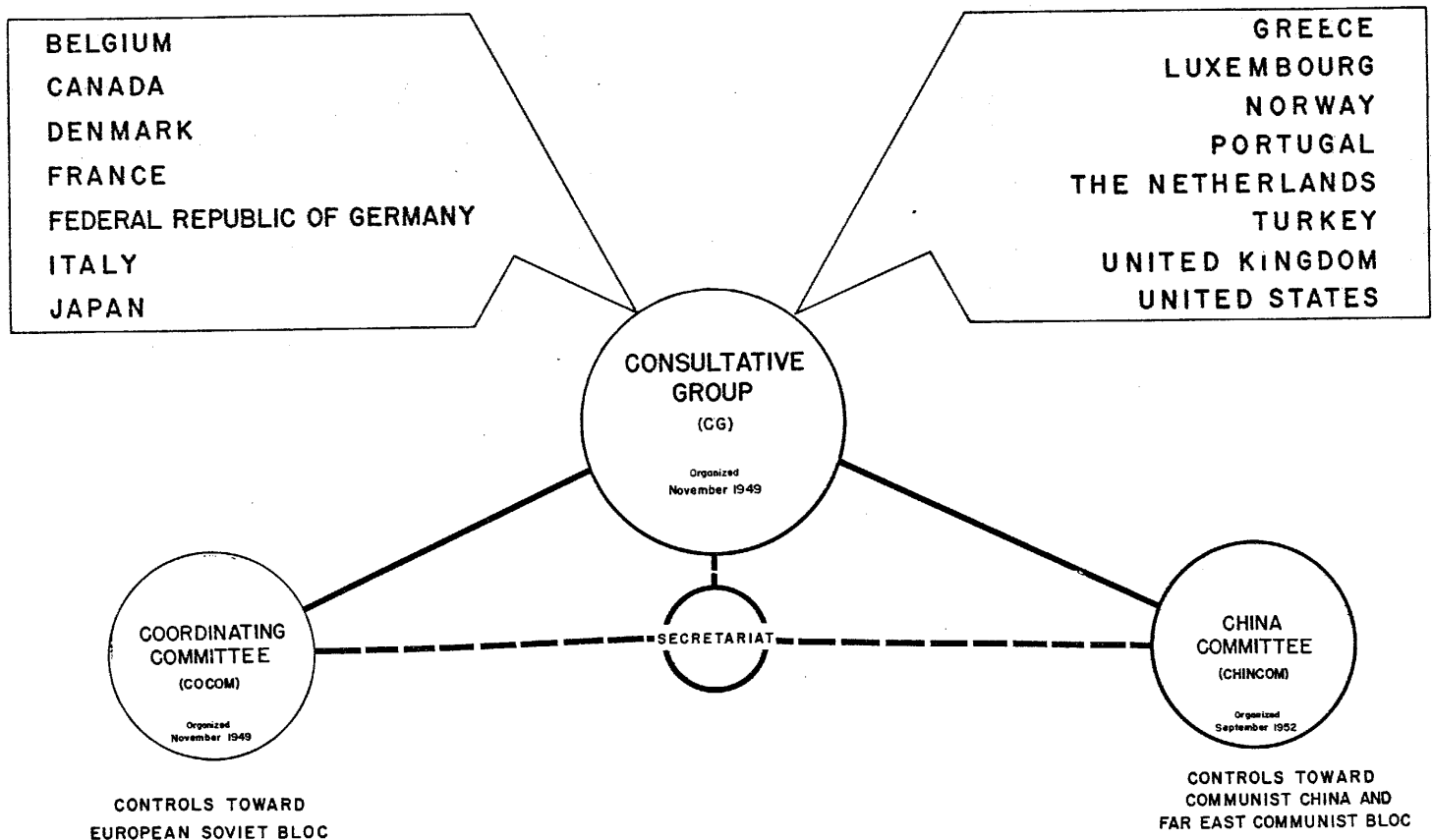


CHART 2

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The committee mobilizes all the resources of the United States Government which can help with the problems involved. Meetings of the Executive Committee are held at very frequent intervals to discuss new facets of those problems. Working groups are constantly in action delving into the perplexities involved in each new decision.

(Chart 2 - International Organization)

The international organization for security controls has its headquarters in Paris. Fifteen major industrial nations carrying on 60 per cent of the free world's trade are members of this informal organization which is called the Consultative Group. Their ministerial representatives meet when necessary to discuss economic defense policy and to agree on changes.

Actual day-to-day coordination of the international security controls rests upon two committees: the Coordinating Committee, known as COCOM, which concerns itself with trade controls against the European Soviet bloc, and the China Committee, known as CHINCOM, concerned with the special problem of control over trade with Communist China.

I should emphasize that the Consultative Group has been in existence voluntarily since 1949, several years before enactment of the Battle Act by Congress. A small secretariat serves the year round.

Despite the traditional trade rivalries among these participating countries and their constant search for new markets abroad, the governments have voluntarily reached agreement on uniform lists of commodities to be denied the Sino-Soviet bloc. They have agreed that they will not ship to the Soviet bloc in

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Europe any arms, ammunition, or implements of war, atomic energy materials, and about 170 other items which would make a contribution to the war-making potential of the bloc.

In addition to these items which are embargoed to the bloc, certain other items of somewhat less strategic importance are denied to the European Soviet bloc after a certain agreed quantity has been shipped. Still other goods are listed for "surveillance" so that shipments can be restricted promptly if agreement is reached to do so. About 90 items fall into these two categories. As to Communist China, there are no quantitative or surveillance controls. Commodities in all of the categories I have just described are embargoed, plus a number of other items.

Perhaps I can best illustrate how the functions of the American and international organization interlock by describing the activities which resulted in a revision of these control lists in August 1954. At that time economic conditions in the free world had improved considerably, a buyer's market emerged, and pressures for increased exports rapidly developed. Certain of the controlled items had decreased in importance because of changes in technology and science, or because new evidence had been received as to the use being made of the item by the bloc. There was also the need for gearing the international program for a long-haul concept. The threat of war appeared less immediate than it had been when the control lists were first prepared.

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The Executive Branch of our government approved an economic defense policy which, although still requiring continued controls, took cognizance of the changed conditions by placing controls on a more selective basis. This policy, I should emphasize, applied only to the European Soviet bloc. No change was made in the China controls.

The various agencies in the Economic Defense Advisory Committee systematically examined each of the then 400 items which were under embargo, quantitative control, or surveillance. The other participating countries which had come to the same conclusions about the need for an overhaul also reviewed the lists and reached their own views.

In March 1954 a trilateral conference involving the United Kingdom, France, and the United States agreed on criteria for determining the status of each item under consideration. Soon afterwards COCOM in Paris began a detailed review of these items. As a result of these negotiations, agreement was reached generally on new and shorter lists. Certain items on which agreement could not be achieved were left in their previous status of control. As of now, 226 items are embargoed to the European bloc.

In addition to a review of the lists, agreement was reached on a substantial tightening of the machinery of controls. Transaction controls were tightened among the 15 COCOM countries to prohibit the sale of embargoed goods to any part of the Sino-Soviet bloc by residents of free world countries

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regardless of the source of the goods. More effective controls over transit trade were introduced by the COCOM nations to prevent the diversion to the bloc of embargoed items ostensibly bound from one free world country to another.

Thus, while there were differences of opinion, the unity and voluntary cooperation of the 15 nations continued.

The foregoing relates to what is known as the International Lists of items under control to the bloc. The Battle Act requires that the Administrator, after full and complete consideration of the views of the Departments of State, Defense, and Commerce; the International Cooperation Administration and other appropriate agencies, shall also determine and list the items which come within separate provisions of the Act.

We therefore have, in addition to the International Lists of items, the lists to which the Battle Act relates. We have a list known as Title I, Category A, which contains atomic energy and munitions items.

By the provisions of the Act, if an aid-receiving country ships them to the bloc, this aid must be terminated. No such items have been shipped.

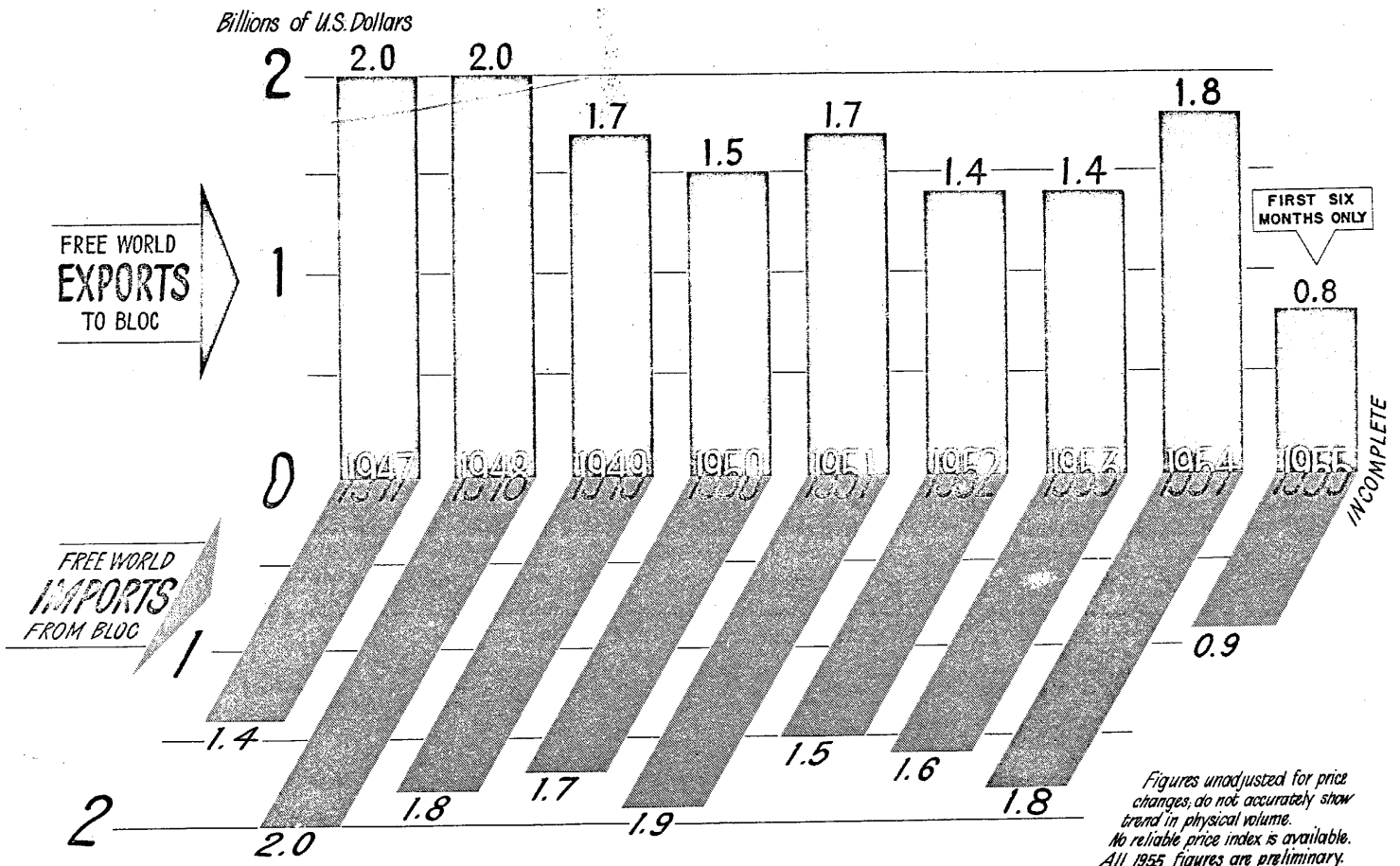
We have the list known as Title I, Category B, which contains items of primary strategic significance. This is the same as the international embargo list.

If an aid-receiving country knowingly and willingly ships any of these items to the bloc, the President, after receiving advice from the Administrator of the Act, and after taking into account the contribution of such country to the mutual security of the free world, the importance of such assistance to the United States, and the importance of imports received, may direct the continuance of aid to a country where unusual circumstances indicate that the cessation of aid would clearly be detrimental of the security of the United States.

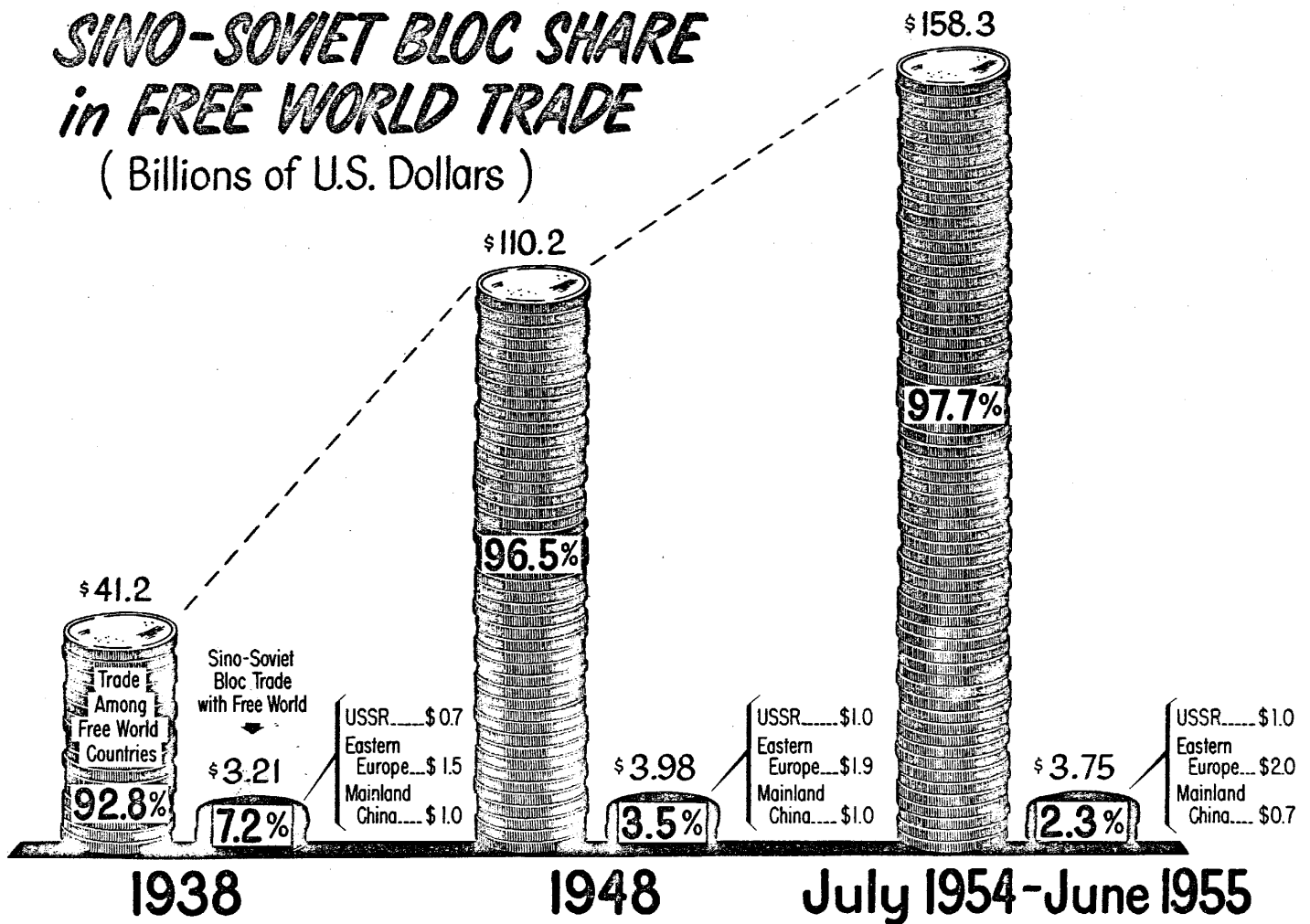
There have been shipments of these items by aid-recipient countries. About 75 per cent of the dollar value of such shipments were made under an accepted interpretation of prior commitments; that is, commitments for shipment made before publication of the Battle Act Lists. No aid has been terminated incident to such shipments.

Finally, there is a list known as Title II which contains items of lesser strategic significance. The items on this list are the same as those on the International Lists II and III. The Act provides that aid to a recipient country shall be terminated when the President determines that it is not effectively cooperating with the United States pursuant to this Title of the Act, or is failing to furnish the United States information sufficient for the President to determine that the recipient country is effectively cooperating. No aid has been terminated under the provisions of this Title of the Act.

TRADE OF FREE WORLD WITH BLOC, 1947-1955



SINO-SOVIET BLOC SHARE in FREE WORLD TRADE (Billions of U.S. Dollars)



NOTE: Eastern Europe (Satellites): Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania.
East Germany is included in 1948 and 1954-1955 but not in 1938.

SOURCE: Dept of Commerce - Figures unadjusted for price changes.

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The unity of action of the free world and its determination to retard the war-potential buildup of the Sino-Soviet bloc become even more important when we realize the extent of the effort being made to destroy security controls. Each of the countries, including the United States, has been constantly subjected to propaganda which blames export controls for the low level of Soviet trade. This propaganda invariably presents the U. S. S. R. as a potential cornucopia of profitable trade if only the free world nations will drop their strategic trade controls. A study of the facts, however, shows that this horn of plenty has unfortunately been little more than a loud speaker.

It is our belief, based on very comprehensive and continuing studies, that a further reduction in strategic trade controls would have its effect primarily in the composition rather than the overall dollar value of East-West trade. We believe that any further reduction in the controls would result mainly in a change in the kinds of commodities imported by the bloc. The basic reasons for this are the Sino-Soviet bloc's lack of marketable exports with which to pay for the free world goods it needs and its strong desire to obtain complete independence from the need to import.

(Chart 3 - Trade of Free World with the Bloc)
(Chart 4 - Soviet Bloc Share in Free World)

As you can see on Chart 3, the trade of the free world with the entire Sino-Soviet bloc has been relatively low in volume. In 1947 and 1948, before international security controls became effective, trade with those areas of the world amounted to only about \$2 billion in exports and somewhat less in imports. It may reach the same amount this year.

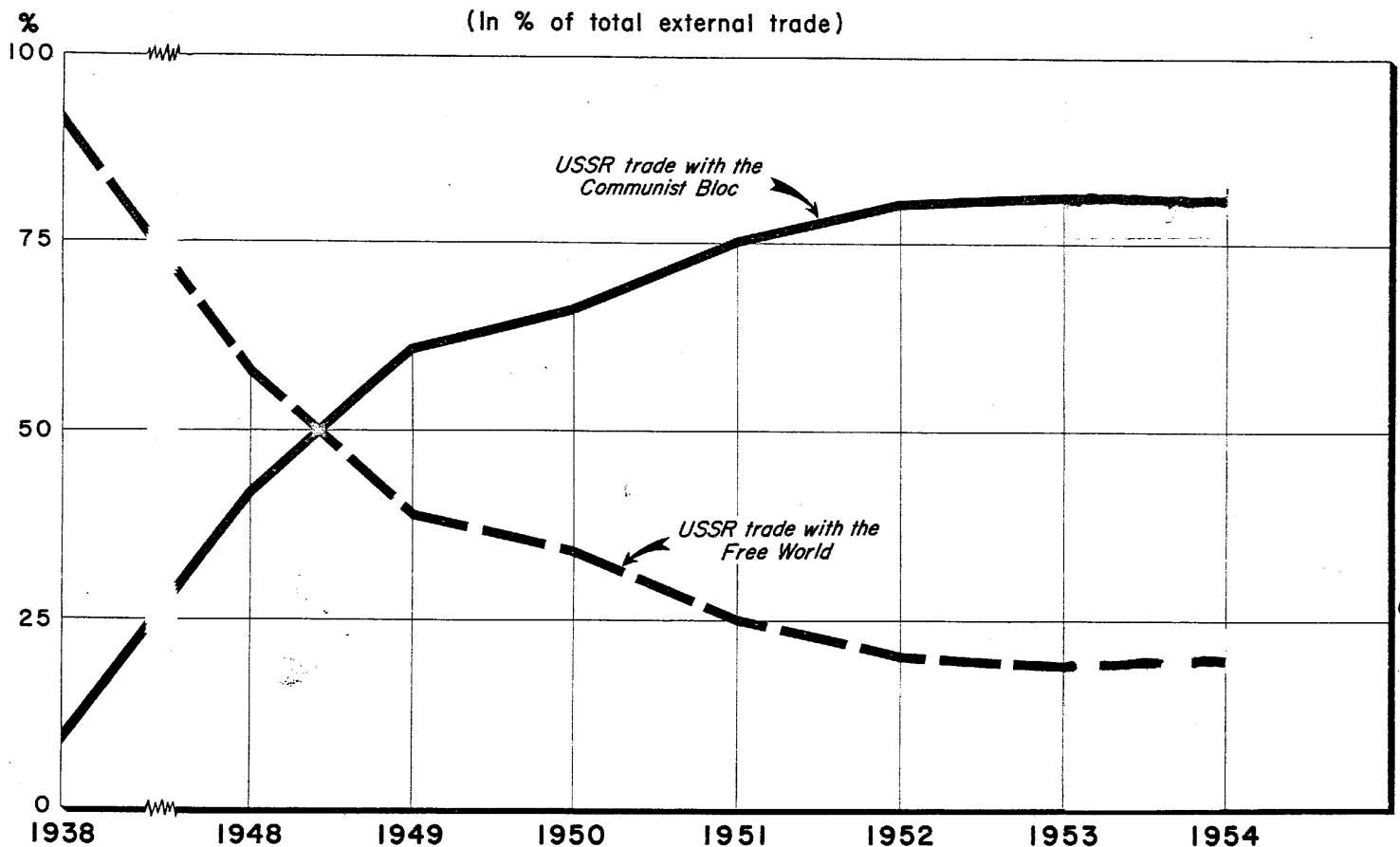
However, there has been a drastic drop in the Sino-Soviet bloc share of free world trade since World War II. In 1938, as you can see on Chart 4, the countries now included within the bloc took for themselves 7.2 per cent of that trade. In 1948, before the first international security controls on strategic goods became effective, that trade had already declined to 3.5 per cent. In the year preceding June 30, 1955, the bloc share was only 2.3 per cent.

The U. S. S. R. individually has always had a minor role in the field of foreign trade. Even in 1938 its proportion of world trade was only 1.6 per cent. In 1948, when the Soviet Union still had ready access to anything for which it could pay, its share of free world trade declined to 0.9 per cent. In the fiscal year 1954-55, the proportion declined again to a mere 0.6 per cent.

The Eastern European countries in 1938, before they were forcibly joined to the bloc, were a considerably greater factor in world trade than the U. S. S. R. In that year they gained 3.4 per cent of the world's foreign trade. In 1948, when the U. S. S. R. had completed its conquest of the area, the proportion of trade with the free world dropped to 1.7 per cent. In the year 1954-55, after the principal of self-sufficiency and construction of a "parallel" market had been firmly established, their portion of free world trade had dropped to 1.3 per cent.

In the midst of war in 1938, China had a larger share of the world's foreign trade than the U. S. S. R. It amounted to 2.2 per cent. China's best customer then was the United States. Again in the midst of war in 1948, with

USSR TRADE WITH THE FREE WORLD AND WITHIN THE SINO-SOVIET BLOC*



* Sino-Soviet Bloc includes: USSR, European Satellites, Communist China. Does not include North Korea or Northern Vietnam.
Source: Trends in Economic Growth, Joint Committee on the Economic Report, 1955

CHART 5

its economy thoroughly disrupted, the portion declined to 0.9 per cent. In the year 1954-55, the share of Communist China's trade with the free world was only 0.4 per cent.

It should be noted, also, that between 1938 and 1955 the free world's foreign trade skyrocketed from \$41.2 billion to \$158.3 billion annually. The trade of the Sino-Soviet bloc with the free world during the same period has never exceeded three to four billions.

In fact, during the year preceding July 1955, imports from the free world by the entire bloc were about one billion dollars less than imports by the Netherlands.

The trade of the leading industrial nations of the free world (all members of COCOM), with the countries now composing the European Soviet bloc, has never returned to its pre-war importance. In pre-war days Eastern Europe was important particularly to the trade of Western Europe.

(Chart 5 - U. S. S. R. Trade)

The reason for this drop in importance of East-West trade can be traced directly to Soviet policy. An example of this can be seen on Chart 5. This illustrates the Soviet drive towards autarky within the bloc, to set up a market which has been described by Soviet leaders as isolated from and parallel to free world markets. The obvious aim is to make the entire Sino-Soviet bloc independent economically from the remainder of the world. As a result of this policy, the post-war expansion in U. S. S. R. foreign trade has occurred almost exclusively with the countries comprising the Sino-Soviet bloc.

Before 1940, the U. S. S. R. devoted less than 15 per cent of its external trade to the areas now comprising the Eastern European satellites and Communist China. By 1954 the proportion had risen to 82 per cent. Thus, only 18 per cent of the Soviet Union's foreign trade was available to free world merchants.

Conversely, the areas of the Eastern European satellites and Communist China gave 10 to 15 per cent of their total foreign trade before 1940 to the U. S. S. R. Last year these countries as a group devoted 53 per cent of their foreign trade resources to the U. S. S. R. and another 24 per cent to trading with each other. Thus, the satellites and Communist China limited their exchange of goods with the free world to 23 per cent of their total.

We have seen no positive evidence that this policy of making the bloc self-sufficient has changed recently. The free world has been regarded by the bloc primarily as a source of equipment, technical knowledge, and commodities which are in short supply within the bloc.

There are many other factors which inhibit trade with the bloc. Among the most important, as I have said previously, is the lack of marketable exports with which to pay for the bloc's imports. The traditional exports of those countries have been products of the farm, forest and mine. Yet many of these are now being imported as a result of the emphasis upon industrial production within the bloc. Petroleum from the U. S. S. R. and Rumania seems to have become a major export in 1954 to the free world. Some machinery has been shipped to underdeveloped countries as part of the Soviet drive to increase political contacts with those countries.

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In addition, the Soviet market is a highly unreliable one for merchants. There is no certainty that a newly established production line, created to fill Soviet orders, will not be interrupted because of a change in Soviet demands. American businessmen have in the past seen their products purchased and used as prototypes for Soviet production although these products are protected by United States patents which the Soviet Union refuses to recognize. Soviet political decisions are reflected all too frequently in their own trade embargoes. There is no need to recount the Soviet action in Yugoslavia in 1948.

These are only a few of the difficulties which, because of Soviet policies, hinder trade with the free world. These difficulties in trading with the Soviet bloc have very little to do with the security controls. As I said earlier, the Soviets have available to them a vast and relatively untapped supermarket of peaceful goods which they can buy at will, provided, of course, they are willing to devote their resources to pay for these goods.

In summary, I would like to emphasize:

Strategic controls of a selective nature are important and necessary to deprive the bloc of the kinds of goods it needs to build up its war potential industry.

Strategic controls have been only a minor factor in causing the low volume of post-war East-West trade. This trade has always been low in relation to total world trade.

The bloc's own policies have had a great effect in limiting East-West trade.

If the bloc in Europe is in earnest about increasing trade in peaceful goods, it has more than ample opportunity to do so.